UNDP

UNITED NATIONS DEVELOPMENT PROGRAMME

Distributed on request
DP/PROJECTS/7321

ENGLISH

APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF INDONESIA

IPF:(1991-94) $62 659 700

(INS/90/010) - Strengthening Policy, Regulatory & Institutional Framework for Foreign Direct Investment

Date of approval by the AC:[1/]	1 July 1992
Expected duration:	27 months
Proposed executing agency:	International Finance Corporation (IFC)
Government implementing agency:	Investment Coordinating Board (BKPM)
Proposed UNDP contribution:	$1 274 900 Source of fund: IPF
Total UNDP budget:	$1 274 900

Project background

Declining oil prices in the 1980s drastically reduced Indonesia's tax revenues and export earnings. With the deterioration of the current account balance, the Government was forced to borrow heavily from abroad to fill the gap (net capital inflows rose from $876 million in 1979 to $6.04 billion in 1984). This limited the Government's capacity to finance planned levels of public investment as well as inhibited efforts to move away from an inward-looking development strategy. Consequently, the private sector was called upon to fulfill an increasing role in the development of the economy. Thus, in the past few years, the Government has embarked upon a dramatic but phased programme of reforms to open-up the economy, improve the incentives framework and accelerate economic growth.

The current development plan, Repelita V, emphasizes the need to develop "a healthy and dynamic investment climate," so as to encourage the private sector, including Foreign Direct Investment (FDI), to play a more significant role in the economy. Repelita V projections indicate that 55 percent of total investments during the period 1989-1994 should come from the private sector and that 25 percent of this is expected to come from FDI. For this to be realized, it is necessary that the Government's policy towards FDI be reoriented from control to encouragement. Accordingly, the Government has instituted a series of fundamental policy changes to deregulate the micro economy and industrial organization, and to encourage the participation of FDI. In addition to the flow of foreign capital, it is expected that FDI will enhance transfer of technological and management skills, create employment opportunities and provide training to the country's labour force.

Although FDI approvals increased from $800 million (1986) to $8.78 billion (1990), the rate of implemented investments has remained low at 29 percent because of problems relating

[1/] This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.

/...

to issuance of licenses, permits and lengthy procedures/requirements. Various restrictions also persist with regard to ownership requirement and sectors where FDI is allowed to enter. There are serious deficiencies and incompatibility in the quality and reliability of FDI data produced by the Investment Coordination Board (BKPM), the Central Bureau of Statistics and The Central Bank (Bank Indonesia). There is also lack of policy and action plan for developing backward linkages between FDI and the rest of the economy. Furthermore, in transforming the country's investment promotion institutional framework (principally the BKPM and the Regional Investment Coordination Boards-BKPMDs) from regulatory to promotion-oriented organizations, it is necessary that they be given the proper mandates and that their staff are trained.

The above-mentioned problem areas were identified as critical to the country's investment promotion efforts during the project's preparatory assistance phase. To address these problems, the Government requested UNDP assistance under the present approval. The proposed project has also benefitted from earlier activities carried out under the IFC/FIAS-executed regional project RAS/86/080 and RAS/88/030 (Advisory Services on FDI) with regard to the development of a comprehensive investment promotion strategy for Indonesia.

Description of project

The main objective of this project is to enhance the net benefits that the country will gain from private investment by increasing FDI flows. The immediate objectives of the project are to: (a) improve the investment policy framework, particularly relating to ownership and sectoral restrictions on FDI; (b) develop a reliable FDI data base and information system; (c) eliminate bottlenecks in the approval and licensing processes; (d) develop policies and programmes to promote backward linkages; and (e) organize a comprehensive training programme (consisting of seven modules) in Indonesia and abroad for a core group of senior executives and trainers from BKPM and BKPMD in all aspects of investment promotion. This training programme will be implemented only when the new organizational structure of the BKPM, which was introduced in July 1991 through Presidential Decree No.25/1991, is fully in place.

Inputs

UNDP will provide 48.7 work-months of consultancy services in policy framework (FDI ownership and sectoral restrictions), approval and licensing system, establishment of FDI data base, development of backward linkages, and various aspects of investment promotion; 19 work-months of national consultancies in specific fields; implementation of comprehensive training programme in investment promotion (to be implemented under subcontract arrangement) as well as the organization of specific training events on FDI data base systems/management, and the development of backward linkage policies and programmes; equipment including personal computers and a copying machine; and miscellaneous costs.

Financial data

	$
Personnel	792 100
Subcontract	347 600
Training	102 200
Equipment	14 000
Miscellaneous	19 000
Total	1 274 900

- - - - -